

INTEL CORPORATION  
ANNUAL REPORT  
1975



## INTEL

Intel was organized in 1968 to develop the burgeoning technology of integrated electronics, from which the corporation derives its name. During its brief history it has become the world's largest producer of MOS circuits, and is in the top ten producers of all semiconductor devices.

The company has concentrated on large scale integrated circuits (LSI) rather than competing broadly in the semiconductor device market. Intel recognized the potential of LSI for memory applications and spear-headed the development of semiconductor memories, becoming the largest supplier of semiconductor memory components.

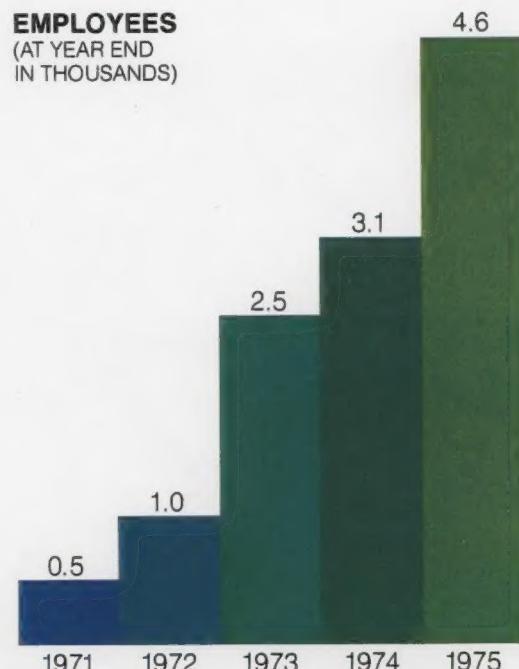
With the semiconductor memory components as a large volume production base, Intel was able to develop a position in the logic market which was and still is the largest market for integrated circuits. LSI had previously been used in this market mainly in the form of custom circuits designed for a particular application. A new concept was necessary to develop a large market for general applications of LSI circuits since only the largest applications could justify the initial development cost of custom circuits.

Intel introduced the microprocessor in 1971, allowing most logic to be performed by a microcomputer. The company continues to lead the development of the vast market opened by this new approach. Viewed as revolutionary by many, the microcomputer is finding markets in applications totally new to electronics, as well as replacing existing semiconductor logic circuits.

The Memory Systems Division (MSD) was started in 1971 to offer to our customers complete memory systems as well as components. Here our knowledge of the critical design parameters of the components has given us a significant advantage in establishing ourselves in the systems business. MSD provides a significant outlet for our components, as well as design feedback for our components group.

In 1972, Intel entered the digital watch market through the acquisition of fledgling Microma, Inc. Digital watches are expected to displace a large fraction of the mechanical watches produced today. Microma's watches are dependent upon our LSI circuits and liquid crystal displays (LCD's) produced by Microma.

The semiconductor industry has been and will continue to be intensely competitive. Technological change has occurred rapidly, presenting us with new challenges and opportunities for profit. We expect to continue to take advantage of these new opportunities through our growing engineering, production and marketing capabilities.



## MANAGEMENT REPORT

Although 1975 revenues of \$136.8 million were a new high, up 1.7% from 1974, earnings of \$16.3 million, or \$2.35 per share, were down by 17.7% from the record levels of 1974. The last two quarters do, however, compare favorably with the corresponding quarters in 1974 both in revenues and earnings.

The recession, which hit most of the semiconductor industry about mid-1974, has proven to be deeper and more persistent than previous dips, such as the one in 1970-71. As yet, we see no clear signs of any renewed strength in the electronic components portions of business. While the suddenness and depth of the decline were certainly exaggerated by a recognition on the part of the users that they had excess inventory for their projected business levels, this excess has, for the most part, been worked off. We feel that there is now relatively little inventory of Intel's products in our customers' hands and that our shipments approximate quite closely their usage. Any increase in usage levels which would also require increased inventory should cause rapid acceleration of orders. This has not yet occurred.

The relative softness in the components business was compensated somewhat by growth in the Memory Systems Division and in Microma, our electronic watch subsidiary. In particular, the market for add-on memory systems for IBM computers has been strong, and we expect it to continue strong into 1976. This is, in part, the result of new products added to our line and, in part, a result of a sales force added to serve this market directly as well as through third-party leasing companies.

Microma has placed its major emphasis during the year on building up volume production of its own brand of electronic watches and marketing them through quality department stores and similar retail outlets. The de-emphasis of modules sales reflected our view that, in order to participate in this large new market for electronics, it is necessary to make the complete watch. Progress has been gratifying. Microma has established itself as one of the leading producers of electronic watches.

Intel shipped over 50% more memory "bits" in 1975 than in 1974, showing that even in this period of economic recession the demand for memory has continued to expand rapidly even though it is not obvious from the revenue figures. A combination of unusually severe price drops in certain products and a trend toward increased complexity with correspondingly lower costs per function were responsible for the large decrease in average revenue per bit. Particularly important is the acceptance of 4096 bit random access memories (4K RAMs) to replace both cores and less complex semiconductor chips. These new devices offer large cost advantages to the user and are rapidly expanding the number of memory bits used. Intel has a strong position in this product area. We are expending considerable effort to enhance this position by offering a variety of 4K RAMs and by continuing to improve our ability to manufacture and test them efficiently so that we can supply a major fraction of the large projected requirements in 1976 and beyond.

The microcomputer is probably the most discussed new product in electronics. Intel pioneered these exciting devices and has a major market position. We offer the most complete line of microcomputer products including components, design aids and software. We have been investing heavily to retain this position. The worldwide economic situation has also slowed development of the microcomputer market in 1975. Production of many new systems which would have used our microcomputer components has been delayed. Production should proceed as conditions improve. However, we were successful in winning a large fraction of new design commitments to our products. The Intel

**REVENUES**  
(DOLLARS IN MILLIONS)



products, particularly the 8080 family, have become industry standards. Some of our competitors have decided to become alternative sources to our products rather than to develop and support a microcomputer family of their own. This action strengthens the position Intel designs as standards and makes them acceptable to some large potential users who require multiple independent sources before making major product commitments. While alternative sources increase the pressure on prices, particularly in times of excess production capacity, we feel that over a period of time their existence is more of a positive than a negative for Intel.

Even though revenues were flat and conditions relatively uncertain in 1975, Intel expanded its R&D investment by 39% from 1974. This reflects our desire to maintain our position of technological leadership. In many respects periods of soft economic conditions offer exceptional opportunities for well-financed companies to improve their relative technical positions. We feel our recruitment efforts have been quite successful and that our staff has been greatly strengthened. During 1975, we introduced 55 new products which accounted for 15% of our total revenue. These products will contribute a much greater percentage in 1976. Only through such continued investment in new products and technology can Intel hope to maintain its rate of progress within the industry.

As pre-announced in last year's annual report, there were several management changes this year. In addition to the moves whereby Bob Noyce, Gordon Moore and Andy Grove became Chairman, President, and Executive Vice President respectively, Ed Gelbach was made Sr. Vice President and General Manager of a newly created Components Division. Jack Carsten, Gene Flath and Les Vadasz were elected Vice Presidents for Marketing, Manufacturing, and Engineering respectively, in the new Components Division. Dick Egan joined our Memory Systems Division as Assistant General Manager and has managed our direct entry into add-on memory sales and leasing. Irv Cooper, Des Fitzgerald and Keith Thomson were elected Vice Presidents of Microma for Marketing, Engineering, and Manufacturing respectively.

A discussion of the year would not be complete without mention of the fire that destroyed the majority of our component assembly capacity last May 1. Our Penang, Malaysia, plant burned to the ground destroying the equipment and much of the inventory. It required a massive effort on the part of many people for us to recover with minimal problems for our customers. We have submitted insurance claims for the property and business interruption losses.

Our strong cash position and absence of debt will allow us to grow rapidly again as the world economy recovers. Inventories are at levels consistent with the present slowly growing levels of business. In anticipation of a return to a more vigorous economy, we have expanded our staff over the last six months. Employment is now 4600 compared to 3150 at the end of 1974 and 3350 in mid-1975.

## EARNINGS (DOLLARS IN MILLIONS BEFORE EXTRAORDINARY ITEMS)



*Gordon E. Moore* *Robert N. Noyce*

Gordon E. Moore  
President

Robert N. Noyce  
Chairman of the Board

## MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL SUMMARY

After more than doubling revenues in each of the previous years, the increase from 1974 to 1975 was very small. Because of the economic recession and increased competition, unit volume rose barely fast enough to balance the large decreases in average unit price.

Continued increases in research and development costs reflect our expanding commitment to product development. Management feels this is required to maintain our technical leadership position.

The large increases in marketing and general and administrative expenses between 1974 and 1975, as well as between the first and second halves of 1975, reflect additions to our marketing efforts. These increases were needed to support our expanding sales in memory systems, to educate our customers in microcomputers, and generally to meet increased competitive pressures in the marketplace we serve.

Income tax rates have remained essentially unchanged since 1971 when the tax loss carryforward resulting from initial startup expenses was utilized.

Quarterly revenues for 1975 were approximately flat in the first six months, growing in the final two quarters. The growth during the last half of the year was mainly the result of new products, the pre-Christmas sales of Microma watches, and increased add-on memory systems sales. The increase in fourth quarter cost of sales as a percentage of sales is in part caused by changes in product mix including the conversion from 1024-bit memory components to those of 4096-bit capacity. Major increases during the last half of the year in cost of sales, marketing expense, and research and development expense resulted from large additions in personnel in anticipation of higher future business levels.

Intel Corporation

**FINANCIAL SUMMARY**

For the five years ended December 31, 1975

	1975	1974	1973	1972	1971
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(Thousands—Except Per Share Amounts)

<b>revenues</b>	<b>\$136,788</b>	<b>\$134,456</b>	<b>\$ 66,170</b>	<b>\$23,417</b>	<b>\$ 9,432</b>
Cost of sales	67,649	67,909	35,109	12,425	6,071
Research and development costs	14,541	10,500	4,565	3,442	1,569
Marketing, general and administrative expenses	21,386	15,369	7,347	3,486	2,305
Taxes on income	16,938	20,902	9,935	2,084	—
<b>Income (loss) before extraordinary items</b>	<b>16,274</b>	<b>19,776</b>	<b>9,214</b>	<b>1,980</b>	<b>(513)</b>
<b>Earnings (loss) per capital and capital equivalent share - before extraordinary items</b>	<b>\$ 2.35</b>	<b>\$ 2.96</b>	<b>\$ 1.41</b>	<b>\$ .31</b>	<b>\$ (.09)</b>
<b>Extraordinary items</b>					
Sale of manufacturing know-how	—	—	—	—	1,427
Income tax benefit of net operating loss carryforward	—	—	—	1,104	—
<b>Net income</b>	<b>\$ 16,274</b>	<b>\$ 19,776</b>	<b>\$ 9,214</b>	<b>\$ 3,084</b>	<b>\$ 914</b>
<b>Earnings per capital and capital equivalent share</b>	<b>\$ 2.35</b>	<b>\$ 2.96</b>	<b>\$ 1.41</b>	<b>\$ .49</b>	<b>\$ .17</b>
Capital and capital equivalent shares used in per share calculations	6,933	6,677	6,508	6,248	5,374

**1975 FINANCIAL INFORMATION BY QUARTER**

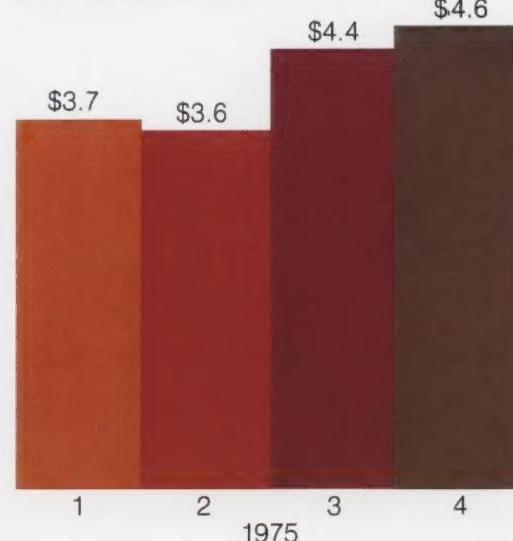
(Thousands—Except Per Share Amounts)	December 31	September 30	June 30	March 31
<b>Net revenues</b>	<b>\$40,253</b>	<b>\$34,669</b>	<b>\$31,501</b>	<b>\$30,365</b>
Cost of sales	20,264	16,383	16,260	14,742
Research and development costs	4,161	3,552	3,527	3,301
Marketing, general and administrative expenses	6,639	5,744	4,279	4,724
Taxes on income	4,590	4,620	3,822	3,906
<b>Net income</b>	<b>\$ 4,599</b>	<b>\$ 4,370</b>	<b>\$ 3,613</b>	<b>\$ 3,692</b>
<b>Earnings per capital and capital equivalent share</b>	<b>\$ .66</b>	<b>\$ .63</b>	<b>\$ .52</b>	<b>\$ .54</b>

**REVENUES BY QUARTER**

(DOLLARS IN MILLIONS)

**EARNINGS BY QUARTER**

(DOLLARS IN MILLIONS)



Intel Corporation  
**CONSOLIDATED STATEMENT OF INCOME**  
Years ended December 31, 1975 and 1974

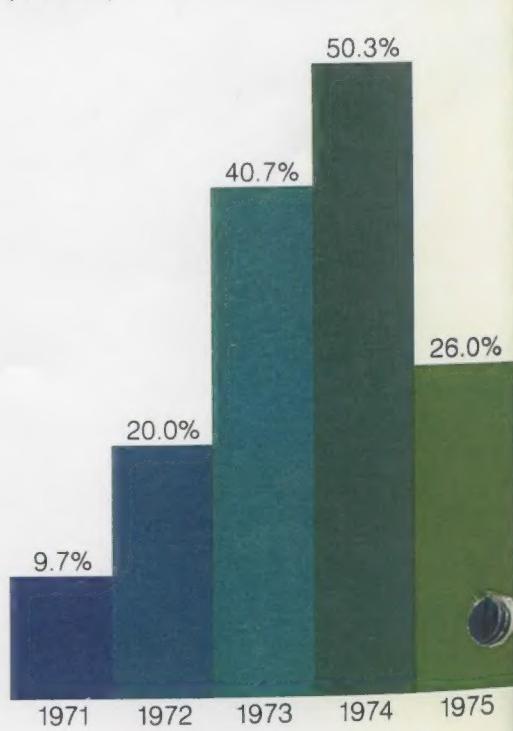
	1975	1974
	(Thousands—Except Per Share Amo	
<b>Net revenues</b>	<b>\$136,788</b>	<b>\$134,456</b>
Costs and expenses (Note 1):		
Cost of sales	67,649	67,909
Research and development	14,541	10,500
Marketing, general and administrative	21,386	15,369
	<b>103,576</b>	<b>93,778</b>
<b>Income before taxes on income</b>	<b>33,212</b>	<b>40,678</b>
Taxes on income (Note 2)	16,938	20,902
<b>Net income</b>	<b>\$ 16,274</b>	<b>\$ 19,776</b>
<b>Earnings per capital and capital equivalent share (Note 1)</b>	<b>\$ 2.35</b>	<b>\$ 2.96</b>

See accompanying notes.

**SHAREHOLDERS' EQUITY**  
(DOLLARS IN MILLIONS)



**RETURN ON SHAREHOLDERS' EQUITY**  
(PERCENT)



Intel Corporation

**CONSOLIDATED BALANCE SHEET**

December 31, 1975 and 1974

<b>Assets</b>	<b>1975</b>	<b>1974</b>
	(Thousands)	
<b>Current assets:</b>		
Cash	\$ 3,802	\$ 1,824
Certificates of deposit and commercial paper, at cost which approximates market	15,491	9,400
Accounts receivable, less allowance for doubtful accounts of \$1,058,000 in 1975 (\$1,228,000 in 1974)	29,938	22,338
Inventories (Note 1):		
Materials	9,078	6,354
Work-in-process	8,779	7,402
Finished goods	2,315	2,085
	20,172	15,841
Prepaid taxes on income (Note 2)	3,976	3,143
Other assets	866	678
<b>Total current assets</b>	<b>74,245</b>	<b>53,224</b>
<b>Property, plant and equipment (Note 1):</b>		
Land and land improvements	2,066	2,059
Buildings and leasehold improvements	8,619	8,987
Machinery and equipment	21,528	15,656
Construction in progress	5,757	1,062
	37,970	27,764
Less accumulated depreciation and amortization	9,496	5,578
Net property, plant and equipment	28,474	22,186
	<b>\$102,719</b>	<b>\$75,410</b>
<b>Liabilities and Shareholders' Equity</b>	<b>1975</b>	<b>1974</b>
	(Thousands)	
<b>Current liabilities:</b>		
Accounts payable	\$ 7,046	\$ 3,206
Deferred income on shipments to distributors (Note 1)	4,551	3,152
Accrued liabilities (Note 1)	7,650	6,273
Income taxes payable (Note 2)	2,202	7,960
<b>Total current liabilities</b>	<b>21,449</b>	<b>20,591</b>
Deferred taxes on income (Note 2)	7,097	4,020
Commitments and contingencies (Notes 4 and 5)		
<b>Shareholders' equity (Note 3):</b>		
Capital stock, without par value, 20,000,000 shares authorized; shares issued and outstanding: 6,560,000 at December 31, 1975 and 6,335,000 at December 31, 1974; at stated value	28,289	21,189
Retained earnings	45,884	29,610
<b>Total shareholders' equity</b>	<b>74,173</b>	<b>50,799</b>
	<b>\$102,719</b>	<b>\$75,410</b>

See accompanying notes.

Intel Corporation

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

Years ended December 31, 1975 and 1974

	<u>Capital Stock</u>			<u>Total</u> (Thousands)
	<u>Number of Shares</u>	<u>Amount</u>	<u>Retained Earnings</u>	
<b>Balance at January 1, 1974</b>	<b>6,206</b>	<b>\$18,054</b>	<b>\$ 9,834</b>	<b>\$27,888</b>
Sales of shares through employee stock participation plan and upon exercise of employee stock options (Notes 2 and 3)	129	3,135	—	3,135
Net income	—	—	19,776	19,776
<b>Balance at December 31, 1974</b>	<b>6,335</b>	<b>21,189</b>	<b>29,610</b>	<b>50,799</b>
Sales of shares through employee stock participation plan and upon exercise of employee stock options (Notes 2 and 3)	225	7,100	—	7,100
Net income	—	—	16,274	16,274
<b>Balance at December 31, 1975</b>	<b>6,560</b>	<b>\$28,289</b>	<b>\$45,884</b>	<b>\$74,173</b>

See accompanying notes.

Intel Corporation

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

Years ended December 31, 1975 and 1974

	<u>1975</u>	<u>1974</u>
	<u>(Thousands)</u>	
Working capital provided by net income from operations, including charges to income not involving the current use of working capital of \$4,881,000 in 1975 for depreciation (\$3,612,000 in 1974) and \$3,077,000 in 1975 for deferred taxes on income (\$2,127,000 in 1974)	\$24,232	\$25,515
Working capital provided by sales of shares through the employee stock participation plan and upon exercise of employee stock options	7,100	3,135
Working capital used for additions to property, plant and equipment	(11,169)	(12,783)
<b>Increase in working capital</b>	<b>\$20,163</b>	<b>\$15,867</b>
Changes in components of working capital:		
Current assets increase (decrease):		
Cash, certificates of deposit and commercial paper	\$ 8,069	\$ 4,978
Accounts receivable	7,600	4,893
Inventories	4,331	5,451
Prepaid taxes on income and other assets	1,021	350
	21,021	15,672
Current liabilities (increase) decrease:		
Accounts payable	(3,840)	1,558
Deferred income on shipments to distributors	(1,399)	(441)
Accrued liabilities	(1,377)	(3,127)
Income taxes payable	5,758	2,205
	(858)	195
<b>Increase in working capital</b>	<b>\$20,163</b>	<b>\$15,867</b>

See accompanying notes.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 1975 and 1974

**Accounting policies**

**Basis of presentation** The consolidated financial statements include the accounts of Intel and all of Intel's subsidiaries after elimination of intercompany transactions. Significant combined financial information as to Intel's foreign operations, whose revenue and income result principally from transactions with Intel, is as follows:

	1975	1974
	(Thousands)	(Thousands)
Current assets	\$6,198	\$4,116
Current liabilities	1,159	570
Net property, plant and equipment	3,357	3,120

**Deferred income on shipments to distributors**

Certain of Intel's sales are made to distributors under agreements allowing right of return and price protection on merchandise unsold by the distributors. Because of the rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

**Warranty** Intel provides currently an amount which, in the opinion of management, is sufficient to cover the estimated cost to repair or replace product expected to be returned under the various warranty provisions in effect.

**Royalties** Intel has entered into various cross-licensing agreements. In addition, Intel expects, from time to time, to utilize products and processes of others and may be required to obtain additional licenses and pay royalties for such utilization. Accordingly, Intel provides a reserve which, in the opinion of management, is sufficient to cover any present probable royalty liability.

**Inventories** Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates average cost) for work-in-process and finished goods and on a first-in, first-out basis for materials. Market is based upon estimated realizable value reduced by normal gross margin.

**Property, plant and equipment** Property, plant and equipment are stated at cost. Depreciation is provided principally by use of the straight-line method over the estimated useful lives of the assets for financial reporting purposes (accelerated methods for tax purposes).

**Foreign currency translation** During 1975, the Company initiated early application of the Financial Accounting Standards Board "Statement of Financial Accounting Standards No. 8" on accounting for the translation of foreign currency transactions and foreign currency financial statements which approximates the temporal method. Exchange gains and losses to date have not been material.

In 1974 and prior years Intel translated foreign currency based upon the current/noncurrent method. The effect of the change from this method is not material.

**Earnings per capital and capital equivalent share**

Earnings per share are computed using the weighted average number of capital and capital equivalent shares outstanding. Capital equivalent shares consist of shares issuable under employee stock option plans (Note 3) computed on the treasury-stock method.

**Facilities destroyed by fire** On May 1, 1975 fire destroyed Intel's assembly plant in Penang, Malaysia. The loss of facilities, equipment, and inventories plus losses related to business interruption were covered by Intel's insurance. The replacement of Intel's facilities and equipment (which is in process) has been accounted for in the accompanying consolidated financial statements as a non-monetary exchange, since receipt of replacement value of property lost required reinvestment in the same location. Therefore, no gain or loss has been recorded with respect to the replacement of facilities and equipment. The net book value of property and equipment not yet replaced at December 31, 1975 is classified as construction in progress.

In connection with losses suffered due to business interruption and inventories destroyed, immaterial amounts recoverable from the insurer have been credited to cost of sales.

**2 Taxes on income** The provision for taxes on income is made up of the following components:

	1975	1974
	(Thousands)	(Thousands)
Federal:		
Current	\$12,752	\$16,364
Investment tax credit on flow-through method	(370)	(571)
	12,382	15,793
Deferred (prepaid)	2,061	2,009
	14,443	17,802
State:		
Current	2,601	3,250
Deferred (prepaid)	(106)	(150)
	2,495	3,100
	<b>\$16,938</b>	<b>\$20,902</b>

Deferred and prepaid taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Timing differences relate primarily to franchise tax accrual, deferred income on shipments to distributors, and undistributed income of Domestic International Sales Corporations and foreign subsidiaries.

Income taxes payable were reduced by \$4,088,000 in 1975 (\$1,520,000 in 1974) as a result of tax deductions arising out of the exercise of non-qualified stock options and disqualifying dispositions of stock acquired under the Company's qualified plans (Note 3).

The Company's income tax returns for 1972 and subsequent years are presently under examination by the Internal Revenue Service. Management does not anticipate any material effect upon the results of operations or the financial position of the Company as a result of the examination.

### 3 Employee Stock Option and Stock Participation Plans

**Employee Stock Option Plans** Under Intel's Qualified and Non-Qualified Stock Option Plans, officers and key employees may be granted options to purchase shares of Intel's authorized but unissued capital stock at not less than 85% of the fair market value at date of grant under the Non-Qualified Plan (100% under the Qualified Plan). Generally, options become exercisable at the rate of 25% per year commencing one to two years from the date of grant. Options for 1,818,750 shares may be granted under the plans as amended. The Qualified Stock Options expire five years from the date of grant. The Non-Qualified Stock Options expire ten years from the date of grant. No charge has been made to income in accounting for options. Proceeds and income tax benefits realized by Intel as a result of transactions in these plans have been credited to capital stock (Note 2).

Additional information with respect to employee stock option plans is as follows:

	Options Available for Grant	Outstanding Options		
		Number	Aggregate Value	Price Per Share
(Thousands—Except Per Share Amounts)				
Balance at January 1, 1974	506	631	\$9,297	\$ 1.27-\$35.33
Additional shares reserved for granting under the Non-Qualified Plan	300	—	—	—
Options granted (a)	(855)	855	20,475	\$15.50-\$57.33
Options exercised		(116)	(1,143)	\$ 1.27-\$22.66
Options cancelled (a)	600	(605)	(18,022)	\$ 2.04-\$57.33
Balance at December 31, 1974	551	765	10,607	\$ 2.04-\$26.25
Options granted	(242)	242	14,768	\$22.00-\$86.00
Options exercised		(186)	(2,126)	\$ 6.22-\$26.25
Options cancelled	73	(78)	(1,459)	\$ 2.04-\$86.00
Balance at December 31, 1975	382 (b)	743	\$21,790	\$ 2.04-\$86.00
Options exercisable at December 31:				
1975		158	\$ 2,427	\$ 6.22-\$35.75
1974		119	\$ 1,194	\$ 6.22-\$20.67

- (a) In connection with a decline in the market price of the Company's capital stock in 1974, management decided that options outstanding at higher prices became useless as a motivating factor for key employees and officers. As a result, management permitted these key employees and officers to cancel their options and reissued new options for the same number of shares exercisable at lower prices.
- (b) Subject to approvals by the California Commissioner of Corporations and the Shareholders, the Board of Directors has authorized an increase in the number of shares available for granting under the Non-Qualified Stock Option Plan of 400,000 shares.

**Employee Stock Participation Plan** Under this plan substantially all employees are entitled to purchase shares of Intel's capital stock at 85% of the fair market value at certain specified dates. Under this plan an aggregate of 112,500 shares may be issued. Employees purchased 39,000 shares in 1975 (13,000 in 1974) for \$886,000 (\$472,000 in 1974).

Subject to Shareholders' approval, the Board of Directors has authorized a new stock participation plan similar to the existing plan under which an additional 300,000 shares will be made available for purchase by employees.

### 4 Commitments

Intel leases a portion of its capital equipment (non-capitalized financing leases) for periods from four to eight years, which periods approximate the economic useful life of the equipment. Intel also leases certain of its manufacturing facilities under leases which expire at various dates through 1984.

Rent expense was \$2,097,000 in 1975, of which \$787,000 was applicable to noncapitalized financing leases (\$1,695,000 in 1974, of which \$1,100,000 was applicable to noncapitalized financing leases).

The minimum rental commitment under all non-cancellable leases with an initial or remaining term of one year or more is as follows:

	Total	Portion Applicable to Noncapitalized Financing Leases	
		(Thousands)	
1976	\$1,354	\$607	—
1977	1,047	405	—
1978	702	222	—
1979	500	60	—
1980	447	—	—
1981-1985	1,694	—	—

### 5 Litigation

Western Electric Company, the manufacturing and patent licensing arm of the Bell Telephone Company, filed suit against Intel on September 19, 1975, alleging the infringement of a single expired United States patent relating to a method of manufacturing semiconductor devices. In this litigation Western seeks back royalties for Intel's alleged past infringement of this patent to its date of expiration in August 1974. Since the patent has expired, no injunctive relief was or could have been sought. In the opinion of management and counsel for the Company, the eventual outcome of this litigation will have no material effect upon the results of operations or the financial position of the Company.

During 1975 Intel filed suit against a customer for collection of amounts due. The customer counterclaimed for \$9.4 million alleging a variety of damages to their business. The suit was settled at no material loss to Intel by the customer paying a major portion of the amounts due and dropping its counterclaim.

# REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders  
Intel Corporation

We have examined the accompanying consolidated balance sheet of Intel Corporation at December 31, 1975 and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

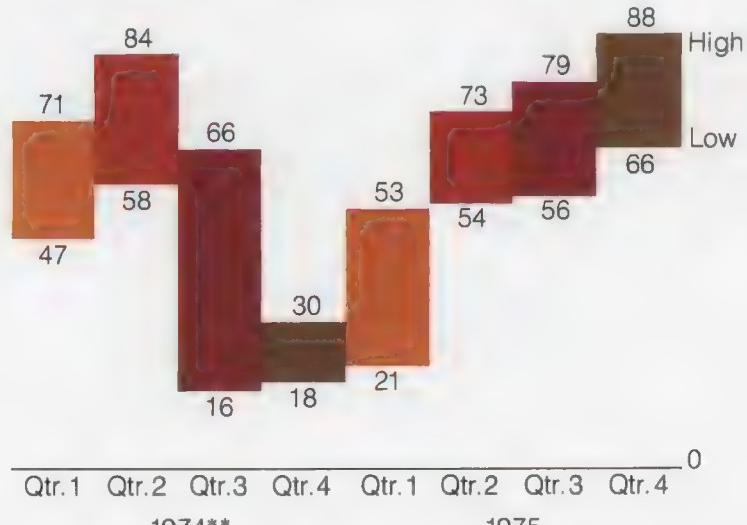
In our opinion, the statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 31, 1975 and 1974 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California  
January 12, 1976

## COMPANY'S STOCK

Intel stock is traded in the over the counter market and is quoted on NASDAQ and in The Wall Street Journal and other newspapers. Intel has never paid dividends and has no present plans to do so. The quarterly bid price ranges\* for the years 1974 and 1975 are shown below.



\*Adjusted for three-for-two stock split effective April 15, 1974 and rounded to the nearest dollar.

\*\*During 1974 numerous semiconductor manufacturers including Intel announced layoffs, declining demand for semiconductor products and reduced profit margins. Intel believes that these announcements, together with the resulting adverse recommendations by securities analysts with respect to investments in semiconductor stocks in general caused the sharp decline during the year in the market price of Intel shares (as well as those of most other semiconductor manufacturers).

## LARGE SCALE INTEGRATED ELECTRONICS

Silicon integrated circuit technology has proven to be highly versatile and adaptive to new requirements constantly arising in the electronics industry. The technology has not only responded to needs from the industry, but also has created new directions and applications for electronics through rapid and continuous reductions in the cost of complex electronic and electro-mechanical functions.

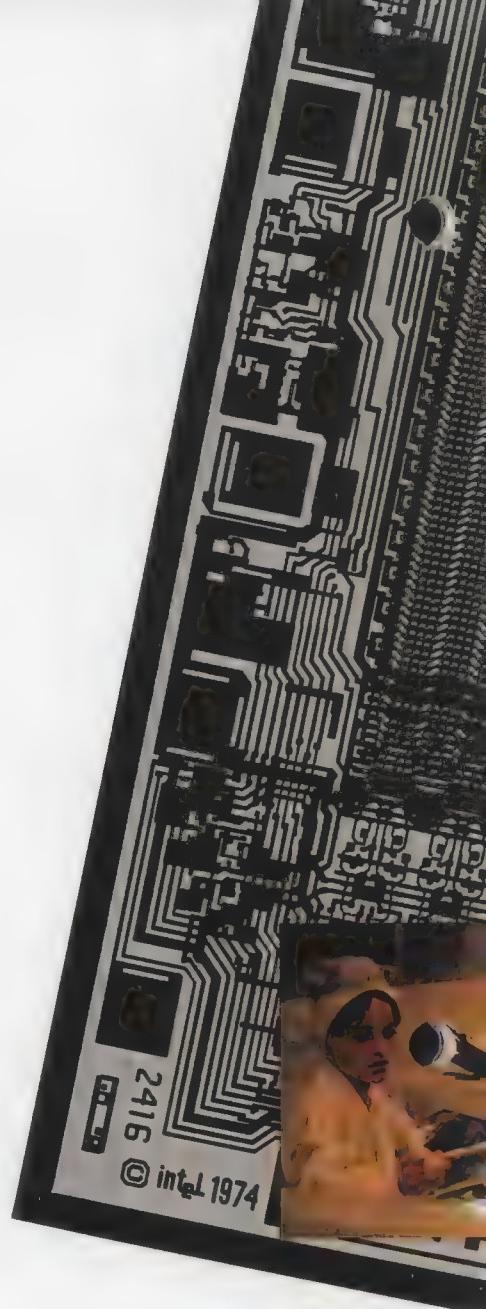
The key to cost reductions has been the evolution of more complex chips wherein the cost increases more slowly than the complexity, providing a lower cost per function. This has been accomplished through refinements of the basic elements of integrated circuit technology, including the design, fabrication, and testing procedures, as well as through discovery and development of new operating principles of semiconductor devices.

Circuit design is increasingly aided through computer simulation. Many circuit forms may be examined quickly, including variation of performance with production variables. The computer is used again in the layout of the precision photomasks used in the production process which serve as a background for this report. Not only does the computer assemble the various elements of the circuit, but does the careful checking for errors which are nearly impossible to find manually.

The circuits are fabricated using a combination of techniques including photoengraving, diffusion, oxidation, film deposition, epitaxial growth and ion implant processes. Productivity in these processes has been increased by processing larger silicon wafers with the completion of the conversion at Intel to 3-inch wafers in 1975. Circuit design also has had its impact on productivity by developing higher density circuits, with more circuits to the wafer, and through new operating principles such as the charge-coupled-device (CCD), a new type of shift register.

Computers are again used to test the circuits after fabrication, after assembly, and through any special processing required for individual customer orders. Intel's effort in research and development resulted in a dramatic increase in new products introduced since 1973, when the company was quite busy serving the demand for the products already introduced. We believe this to be the key to our future growth and profitability.

The progress of the technology is indicated by the introduction of the 16,384-bit CCD memory early in 1975, following the 2048-bit shift register memory in 1972, and the 1024-bit register in 1970. On the average the functional complexity doubled each year.



## PRODUCTS INTRODUCED





The 2416,  
16K Charge-Coupled-  
Device (CCD) is designed  
for low cost, high density  
memory systems.

Products such as the 8080A  
8-bit N-Channel microprocessor  
open new markets.

Illustrated at Longchamps  
is a betting machine  
manufactured by périphériques  
et matériels de contrôle  
(PMC) which utilizes Intel  
microcomputers.



## MEMORIES TO MICROPROCESSORS

The technology refined for use in LSI memories was equally applicable in LSI logic circuits, which led to the birth of the microprocessor or microcomputer. As circuits of this complexity were conceived, developed and marketed, Intel found it necessary to add new capabilities not previously part of the components industry.

These included the architectural design of the microcomputer component families, the development of high-level programming languages, and programming aids appropriate for the microprocessor user, as well as the design of a new class of instruments for the engineer who designs equipment which uses the microprocessor.

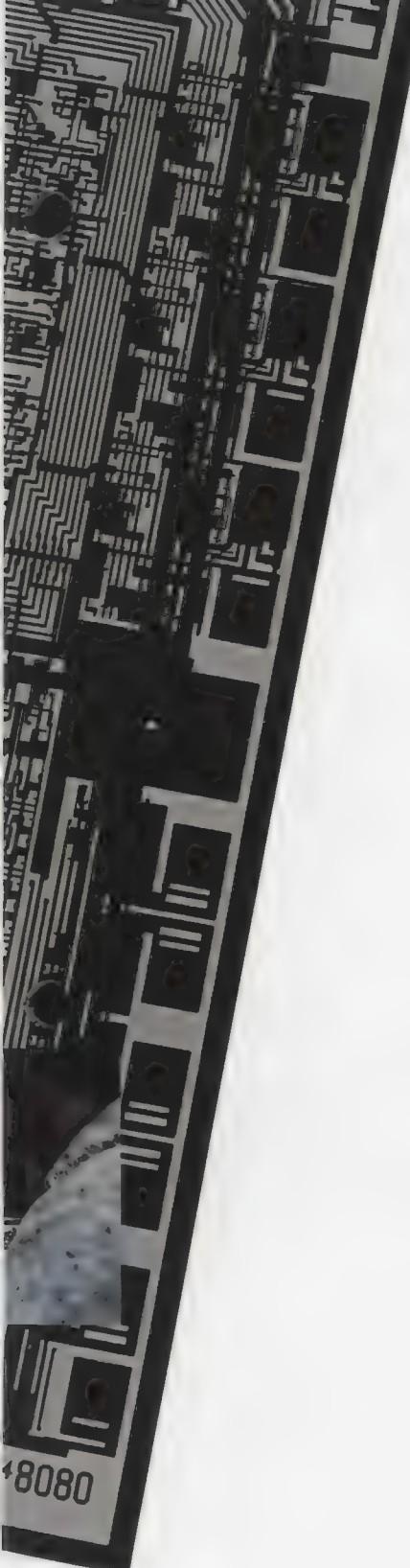
The software now available for the microprocessor includes assemblers, compilers for a new high-level language called PL/M, as well as operating systems, debugging programs, and a variety of users manuals to support this software.

Hardware design aids were expanded in 1975 to include the Intellec MDS™ microcomputer design system, an addition to the Intellec® design systems which support the 8080, 8008, 4004, and 4040 product lines. With this system the designer has a tool for hardware debugging as well as the software debugging systems which were available earlier. Already, this capability has been augmented through the development of a disc operating system for the Intellec MDS and the ICE (in-circuit emulator) for the 8080 and 3000 series microcomputers.

The excellence of these design aids is shown by the acceptance of the 4004 and 8080 as industry standards which have now been copied by a number of competitors.

As the innovator behind the development of the microcomputer, Intel also had to set in motion a substantial educational program to instruct potential customers in its use. Seminars have been and are continuing to be presented widely and are well received. Our field applications staff has been greatly expanded this year. And now several universities, recognizing the revolutionary impact of the microcomputer, are offering courses in its use.

Meanwhile, we are continuing to expand our efforts in the development of even more advanced microcomputers and software as well as adding further to the line of peripheral circuits for the 8080 and 4040. The microprocessor will continue to provide opportunities for Intel for years to come.



## CIRCUITS TO SYSTEMS

Memory Systems Division utilizes our memory components to build memories for use in a variety of digital systems sold to equipment manufacturers and to users of data processing equipment. These memories range from small cards for microprocessor systems which use only tens of memory components to multi-million bit systems which use tens of thousands of memory components.

As anticipated, the IBM add-on market has proven to be counter-cyclical and the Memory Systems Division has enjoyed significant growth during the recession. Since a high percentage of the value of the final equipment is in the Intel-manufactured components, the division has become an important outlet for memory components.

Memory Systems activities comprise the full range of design, manufacturing, test, and marketing. As new components become available from our Components Division, basic memory boards are designed, manufactured and tested. This cycle provides vital information to the Components Division for setting specifications and improving product performance. These basic memory boards themselves are offered as products of the Memory Systems Division and, also, are used as building blocks for basic storage modules (BSM's) including the mounting racks and memory controller cards. A higher level of integration is offered with the inclusion of error correcting, timing and interface circuits to match the equipment exactly to the customers' requirements. A high level of standardization has been achieved by this modular approach, while still maintaining systems application flexibility.

Memory systems testers are also designed and manufactured by the Division. These are included in the larger systems to provide service personnel an aid to maintenance.

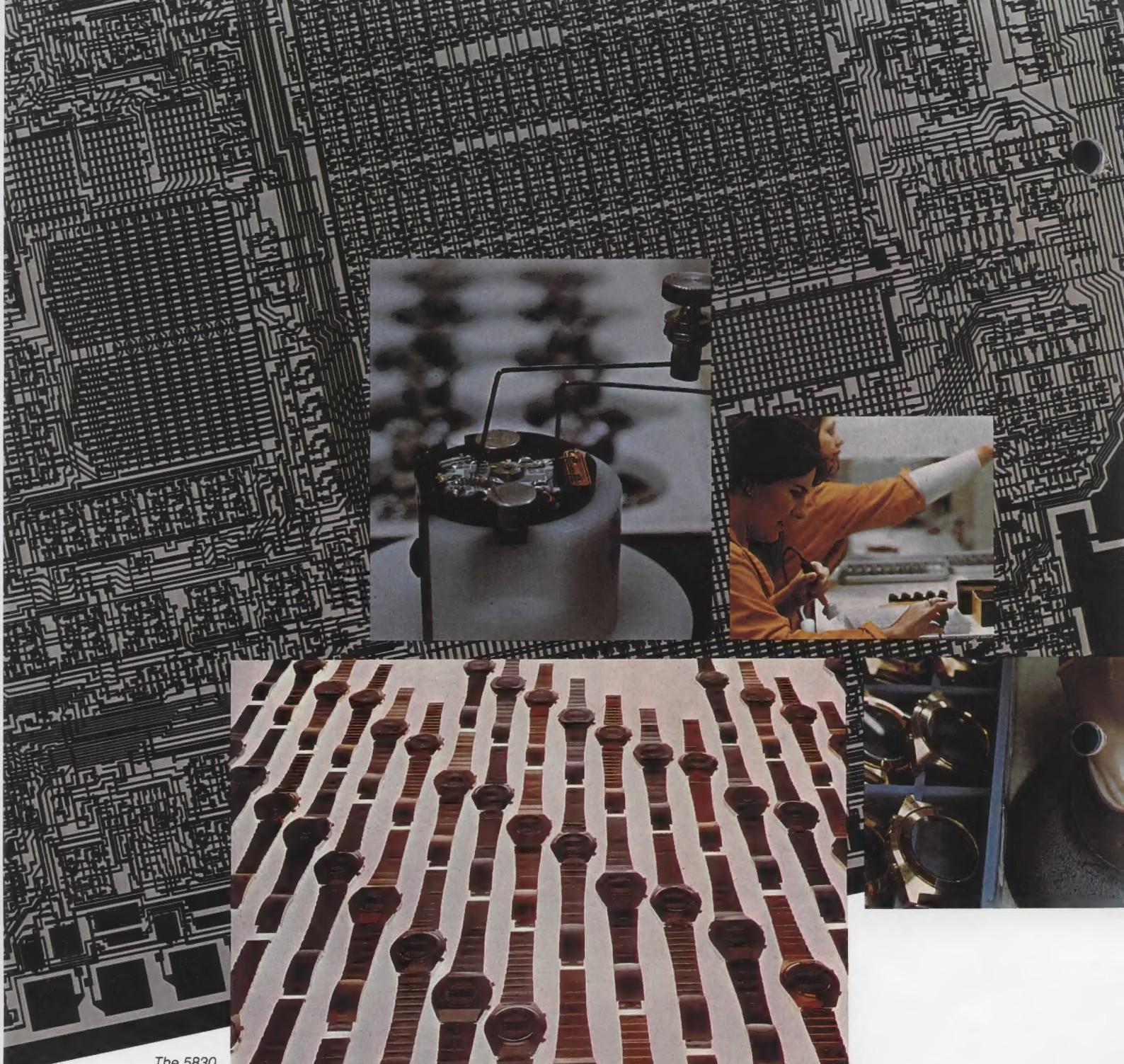
Engineering and design activities have kept pace with the expanding business activity of the Memory Systems Division. The Division introduced major new products including the add-on memory for the IBM 370-158 which utilized the Intel 2107 4K RAM. The first new facility occupied in 1974 was outgrown this year and a 50,000 square foot addition was occupied. Early in the year, the decision was made to market memories directly to the end-user as well as through third-party leasing companies. Our direct sales force has been established across the United States this year contributing significantly to our increased market penetration. In addition to selling these systems, Intel also leases systems and to date all leases have been financed through internally generated funds.

The Memory Systems Division has not only given us access to markets unavailable to Intel at the components level, but also, because of its technical, marketing, and manufacturing capability, has proven to be a useful influence on component design and a good growth business for Intel.





The 2104 16 pin 4K RAM provides reliable, high density storage. The Intel Memory Systems in-7158 add-on memory expands IBM 370/158 capacity to 8 megabytes.



The 5830  
microprogrammable  
watch circuit utilizes  
microprocessor techniques  
to increase versatility.

## TIME FOR CHANGE

The development of low cost electronics through large scale integration had made possible the digital watch, a radically new approach to timekeeping. Using a quartz crystal as a basic time reference, these watches are accurate to within a few seconds a month.

Through Microma, Inc., a wholly owned subsidiary, Intel was an early participant in this exciting new product line, being the first producer of the continuous (liquid crystal) display digital watch. We manufacture most of the critical elements of the watch, including the basic LSI circuit, the display, and some of the case styles used.

During 1975 the digital watch became a serious contender for a significant portion of the annual world market of 200 million watches as a result of design and cost improvements and higher manufacturing volume. We finished 1975 strong, and are well positioned for continuing penetration of this market in 1976.

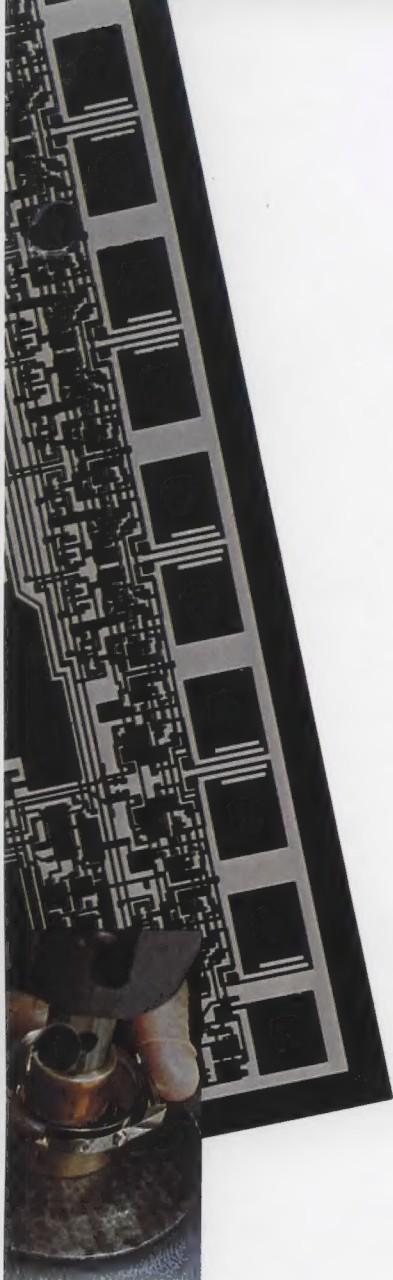
New designs introduced in 1975 reduced the size of the watch modules to that of the average mechanical watch, with many fewer parts and greatly simplified assembly. Display of seconds and date were added, and illumination was provided for night viewing. With the smaller module size, new styles were possible. Microma watches are now sold through over 1,000 retail outlets, and this number will expand greatly through 1976.

Our 1976 line of watches is well along in development and prototypes are now going through consumer test. The line will have new features, styles, and prices.

Although the digital watch will become more competitive as its large market potential is recognized, we are pleased with our performance in 1975. The Microma management team has demonstrated its capability in 1975, and we expect significant growth in 1976.

The digital watch is one example of the broadening market for integrated electronics. As the cost for electronic functions continues to decrease, and as more designers become familiar with the use of digital techniques, we will see an ever-increasing use of electronics in fields outside the traditional electronic fields. Its use is already apparent in calculators, cash registers, automobiles, and appliances to serve functions previously accomplished through mechanical means.

Intel will continue to serve these expanding markets by providing better ways of serving its customers' needs through technology.



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**FORM 10-K**

If you would like to receive, when available, a copy\* of the corporation's "Form 10-K" which will be filed with the Securities and Exchange Commission prior to March 31, 1976 for the 1975 year, please send your request to:

Roger S. Borovoy, Secretary  
Intel Corporation  
3065 Bowers Ave.  
Santa Clara, Ca. 95051.

\*No exhibits will be sent unless specifically requested. (There will be a nominal charge.)



